

**NOMINATIONS OF: MAURICE A. JONES, CAROL  
J. GALANTE, AND THOMAS M. HOENIG**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**BANKING, HOUSING, AND URBAN AFFAIRS**  
**UNITED STATES SENATE**  
**ONE HUNDRED TWELFTH CONGRESS**  
**FIRST SESSION**  
**ON**

**NOMINATIONS OF:**

MAURICE A. JONES, OF VIRGINIA, TO BE DEPUTY SECRETARY, DEPARTMENT  
OF HOUSING AND URBAN DEVELOPMENT

CAROL J. GALANTE, OF VIRGINIA, TO BE ASSISTANT SECRETARY, DEPARTMENT  
OF HOUSING AND URBAN DEVELOPMENT

THOMAS M. HOENIG, OF MISSOURI, TO BE VICE CHAIRPERSON AND MEMBER  
OF THE BOARD OF DIRECTORS, FEDERAL DEPOSIT INSURANCE CORPORATION

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THURSDAY, NOVEMBER 17, 2011

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**THURSDAY, NOVEMBER 17, 2011**

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met at 10:07 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

**OPENING STATEMENT OF CHAIRMAN TIM JOHNSON**

Chairman JOHNSON. Good morning. I call this hearing to order. Thanks to all of our nominees for joining us here today. I also extend a warm welcome to their families and friends who are here with us.

Today we consider two nominees for the Department of Housing and Urban Development and one for the Federal Deposit Insurance Corporation.

Mr. Maurice Jones is the Administration's nominee for the post of HUD Deputy Secretary. The HUD Deputy Secretary plays an important role in the management of a Department responsible for providing critical rental assistance for 5.5 million families, countercyclical support for the housing market, and assistance to State and local governments. Today HUD and its partners face a challenging and changing fiscal economic environment as well as human capital and technology challenges. It is important that Secretary Donovan have a management team in place to help HUD respond effectively and responsibly to these challenges.

Ms. Carol J. Galante has been nominated to be the HUD Assistant Secretary for Housing and Federal Housing Commissioner.

FHA has played an important countercyclical role in the housing market, providing credit as private sources of capital have withdrawn. Much has been done by the Administration and Congress to strengthen FHA's underwriting and fiscal position in recent years. But as we have seen in a recent report on the financial status of the FHA fund, the legacy of loans insured in prior years still pose a threat to the fund that must be managed. It is important that the Administration have its management team in place to continue oversight of FHA.

We also have Mr. Tom Hoenig before us today. As a former President and CEO of the Federal Reserve Bank of Kansas City from 1991 to 2011, Mr. Hoenig is well prepared to serve as Vice Chair of the FDIC. I have been long committed to helping small banks in rural communities continue to be a vital engine for economic growth. I know Mr. Hoenig shares my interest in rural communities and the need to preserve the community banking model. With Mr. Hoenig's nomination and today's hearing, I am hopeful that we are one step closer to moving the other nominees who will make up the FDIC's Board of Directors: Mr. Gruenberg to be FDIC Chair, Mr. Curry to serve as Comptroller of the Currency and FDIC Board member, and Mr. Cordray to be CFPB Director and FDIC Board member.

Given the FDIC's new responsibilities and powers to unwind failing financial firms to prevent systemic problems, ensuring that its Board is operating at full strength is a top priority.

I now turn to Senator Shelby for any opening remarks he may have. Senator Shelby.

#### **STATEMENT OF SENATOR RICHARD C. SHELBY**

Senator SHELBY. Thank you, Mr. Chairman. Today, as the Chairman has indicated, the Committee will consider three very important nominations.

Mr. Maurice Jones has been nominated, as he said, to be the Deputy Secretary of the U.S. Department of Housing and Urban Development, a very, very important post. Previously, Mr. Jones was President and Publisher of Pilot Media Group, a print, digital, and direct marketing organization. He also has many years of experience serving the Government, including working at the U.S. Treasury Department. I look forward to hearing how his private and public sector experience will help guide his management of the Department of Housing and Urban Development.

The Committee will also consider today the nomination of Ms. Carol Galante to be Assistant Secretary of the U.S. Department of Housing and Urban Development and Commissioner of the Federal Housing Administration. If confirmed, she will face difficult tasks. We have talked about this. She brings a lot of experience to this position she has been nominated to. As we all will recall, earlier this week FHA's annual report to Congress on the mutual mortgage insurance fund stated that there is nearly a 50-percent chance that the fund would require a taxpayer bailout. That is not good news.

She has been involved—she has led the FHA's Multi-Family Division since 2009, and her appointment as FHA's Acting Commissioner in July has, I hope, served her well. Given her familiarity

with FHA, I look forward to hearing how she would ensure that the taxpayers hopefully would not need a bailout of FHA.

Also before us today is Dr. Thomas Hoenig, who has been nominated to serve as the Vice Chair and a Member of the Board of Directors of the Federal Deposit Insurance Corporation. He brings a sterling resume here. Dr. Hoenig has many years of experience in banking supervision. He joined the Federal Reserve Bank of Kansas City in 1973 as an economist in the Banking Supervision and Regulation Division. Later he was promoted to Vice President and then to Senior Vice President of Banking Regulation until ultimately serving as President, a role he filled for 10 years until this past October.

Given the many years of experience, Doctor, that you have in banking supervision, I look forward to hearing from you here today about the policy that you believe will work to keep the banking sector safe and sound as any additional work that remains to ensure you know we will be faced with.

I look forward to hearing from all the nominees, and I look forward to moving them along with you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Shelby.

Are there any other Members who wish to make a brief opening statement before we proceed to introducing the nominees?

Senator VITTER. Mr. Chairman?

Chairman JOHNSON. Yes.

#### **STATEMENT OF SENATOR DAVID VITTER**

Senator VITTER. Thank you, Mr. Chairman. I will be brief, but I also want to thank you for the hearing and thank Mr. Hoenig in particular for his past service at the Board of Directors of Kansas City Federal Reserve and hopefully his future service if the confirmation goes through.

His comments about the past crisis and steps we need to continue to take to ensure that we are not in the position of sort of open-ended bailouts we were in 2008 I think are very important, and I hope the Committee gives them thought as we look at policy issues, including outside the ambit of FDIC.

In terms of the FHA, this is no comment on the nominee, but I certainly share Senator Shelby's and others' concerns about this significant chance, rated at a 50-percent chance, that there will have to be a taxpayer bailout in the next year, and whether there is or not, of course, they are way below their normal required capital compliance requirements, so I hope we as a Committee and as a Senate and as a Congress address that also apart from this confirmation process.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Moran.

#### **STATEMENT OF SENATOR JERRY MORAN**

Senator MORAN. Mr. Chairman, thank you. I welcome all the nominees and look forward to their testimony. I want to particularly express my appreciation for the service of Mr. Hoenig at the Kansas City Federal Reserve, and I know he will be introduced by his proud home State Senators. Only until recently did I discover that Mr. Hoenig was not a Kansan, and it is his one chink that I

can find in fault, that poor discretion was made on his part some years ago.

[Laughter.]

Senator MORAN. But it is one of the few things at the moment that Kansans and Missourians agree upon, the tremendous service that Mr. Hoenig has provided the Federal Reserve, and I am pleased that Ms. McCaskill and Mr. Blunt are here in support of their home State nominee.

Mr. Hoenig has been a friend and an adviser of mine for several years now, and I always appreciated his frank and honest advice and suggestions. He is highly regarded in our State and in our region, and the role at FDIC is a significant one, and there are significant issues to be resolved now that Dodd-Frank is being implemented, questions such as: How do you restrict a bank from becoming systemically significant such that its failure will cause significant problems to the entire economy? How should policymakers wind down a large financial institution without exposing taxpayers to loss? And one that is especially important to me, how do we make certain that the benefits of community banking in rural America are preserved in light of the ever increasing regulatory burden?

Tom has spent his professional life pursuing answers to those questions, and it is always appealing to me that while his positions have been thoughtful, they have not always been popular. And to me that shows the sign of significant intellectual capabilities and analyzing not for the crowd at the moment but for what is in the long-term best interest of our country. And we as elected officials could learn something from that role model.

I received a letter from one of Mr. Hoenig's friends, Michael Haverty, of Kansas City, in which he was supporting this nomination, and I would ask that it be included in the record. But in Mr. Haverty's letter, he praises Tom for "being honest, open, and dedicated to doing the right thing, even when it is difficult." And that is exactly the kind of nominees and, those that we will confirm, the officials that we need in this country. I welcome all of you and encourage you to pursue that same kind of reputation that Mr. Hoenig has in his current position.

I thank the Chairman and ask unanimous consent to include the letter in the record.

Chairman JOHNSON. Without objection.

Senator MORAN. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you.

I want to remind my colleagues that the record will be open until next Tuesday for opening statements and any other materials you would like to submit.

We will now introduce our three nominees. Senator Warner will introduce Maurice Jones. Senator Warner.

Senator WARNER. Well, thank you, Mr. Chairman. I again want to welcome all the nominees, and let me assure you, considering the temperature in the room, this is not a frosty reception from the Committee.

I am honored today to introduce the nominee for Deputy Secretary of the Department of Housing and Urban Development, Maurice Jones. Senator Shelby laid out part of Maurice's back-



ground. He left out what I think is perhaps one of the most critical parts of Mr. Jones' background. He also had the distinction to serve with a certain Virginia Governor's administration, and I am going to get to that in a moment.

Following an impressive academic record, Maurice entered the Treasury Department, becoming Director of the CDFI Fund in 2000. In 2002, I had the honor of recruiting Maurice Jones to serve in my then-new administration, first as my deputy chief of staff, where he performed admirably, and then he took on the role of Commissioner at the Department of Social Services. I cannot speak to every State, but generally, most States' Departments of Social Services, while terribly important, are bureaucratic nightmares. My State's Department of Social Services was that, and Maurice brought a remarkable both management ability, ability to kind of sort through and seize on problems, get to the core of a problem, help with structural reorganization, and really brought a sense of long-term vision and planning to an organization that, while there had been many competent heads of Social Services in the past, there had always been a bureaucracy there that was hard to overcome. Again, no reflection on anybody in the current HUD administration, but I think HUD has some of those same long-term systemic challenges as well. And I think Maurice will be a great, great asset on the organizational and management side at HUD.

After he left our administration, he did actually make, as you pointed out, Senator Shelby, the good choice on the one hand of going to the private sector side—a little strange going into the news business—where he served ably as Vice President in Landmark Publishing Group, ended up becoming publisher of one of our leading daily newspapers in the Commonwealth of Virginia. And, obviously, anybody that manages a newspaper and publishing organization through these challenging times as well I think reflects a great deal of skill and expertise.

Based on his service for Virginia, his service at the Treasury Department, his service in the private sector, I am most confident that he will be able to enter HUD at this critical time when there are so many challenges around the housing crisis that still overhangs our economy. I want to welcome him to the Banking Committee. I know he has got members of his family here as well. This is a good guy, and we are lucky to have him before us.

So I am proud, Mr. Chairman, to present and introduce my good friend and someone who I hope the Committee will act favorably on, Maurice Jones, as the nominee for Deputy Secretary for the Department of Housing and Urban Development.

Chairman JOHNSON. Thank you, Senator Warner.

Senators McCaskill and Blunt will introduce Tom Hoenig. Senator McCaskill?

**STATEMENT OF CLAIRE McCASKILL, A UNITED STATES  
SENATOR FROM THE STATE OF MISSOURI**

Senator McCaskill. Thank you, Mr. Chairman. I am not going to spend any time on Tom Hoenig's resume because you all have it in front of you and you know how strong it is. But I do want to talk about him as a Member of a Board of Directors, because if you look around this country and some of the frustration that this

country has with some of the abuses that are out there, a lot of it can be traced to boards of directors that, as one CEO said to me, "We have too many lap dogs and not enough Doberman Pinschers." I want to say that I think Tom is capable of being a Doberman pinscher if the intellectual policy is there.

He is so respected in Kansas City. In fact, I do not know what his secret is, but I wish I could emulate him because he manages to be completely forthright and completely engaging and get respect from all quarters. This is a guy who went to a Tea Party rally to speak to them and listen to them when they were chanting in the Fed.

This is a guy who sits down with the AFL-CIO even though he strongly disagrees with their views on monetary policy. He wants to sit down with them and listen.

This is a guy who is not afraid to tell community banks about supervision being needed, but still they know he respects their business model and that he is the kind of man that they can rely on to never play to the cheap seats.

So in this environment in this country right now, with the challenges that face our economy and our financial sector, I can think of no better member we could find in this country for the Board of Directors of the FDIC. I wish I could command the respect in all quarters that he has in Kansas City and the Greater Kansas City Region, which, unfortunately—or, fortunately—may include a little bit of Kansas.

But it is my honor to introduce him today, and I know that there are many, many times that my colleague and I agree on things, and I know that this is one where Senator Blunt and I feel very fortunate that we have the opportunity to introduce a man of this stature and this capability who I know will help at the FDIC in terms of their Board of Directors.

Chairman JOHNSON. Thank you, Senator McCaskill.  
Senator Blunt.

#### **STATEMENT OF ROY BLUNT, A UNITED STATES SENATOR FROM THE STATE OF MISSOURI**

Senator BLUNT. Thank you, Senator Johnson. Thank you, Chairman and Senator Shelby, for holding the hearing today. I am pleased to join with Senator McCaskill to present Tom Hoenig to the Committee. I particularly appreciated the comments that Mr. Vitter made and Mr. Moran made about Tom's service in the job that he has had for the last 10 years. And we are proud that he is a Missourian and proud that he is still a friend of Mr. Moran in spite of that.

He works hard. All the things that Senator McCaskill said are exactly right in terms of his courage and his commitment to his job. He has been the Kansas City Fed President for 10 years. He has a Ph.D. in economics. He has had 35 years of experience at the Federal Reserve and is well qualified for the job that he is nominated for. In fact, he is probably well overqualified for the job he is nominated for, but he is willing to do it, and we are lucky to have him as a nominee and to be able to present him today.

He has advocated for a careful and cautious approach when addressing the problems facing our economy. He is known for his can-

dor. Through the economic challenges that we have faced recently, he has given consumers, stakeholders, Members of Congress, and the media a perspective that is both unique and valuable as we seek an appropriate path in recovery.

Often Tom Hoenig was cited as the lone dissenter at the Fed. He not only possesses the courage to speak out against excessive risk taking by large institutions, but he also have a real sense of Main Street, of the agriculture economy, of community banks and regional banks, and he has spent his career figuring out how those banks operate, how critical they are to what happens in communities. And my experience with him as a trusted adviser for some time has been that he has a perspective at all levels of what it takes to make this economy work.

His ability to shed light on areas of concern when others are unable to see beyond the status quo will serve him well as Vice Chairman of the FDIC. He is not afraid to speak up. However, he is equally talented at listening to the concerns of stakeholders and consumers alike. It is certainly my pleasure to present him to the Committee and to join Senator McCaskill and others already on the Committee, including Governor/Senator Johanns, and our deep respect for him and his ability.

Chairman JOHNSON. Thank you, Senator Blunt.

I appreciate that Senators McCaskill and Blunt have very busy schedules, and you may be excused.

I will now introduce Ms. Carol Galante. Ms. Galante currently serves in the position for which she has been nominated, Acting Assistant Secretary for Housing-Federal Housing Commissioner at the U.S. Department of Housing and Urban Development. Prior to her designation as the Acting FHA Commissioner, Ms. Galante served as HUD's Deputy Assistant Secretary for Multi-Family Housing Programs. Prior to joining HUD, Ms. Galante was President and Chief Executive of BRIDGE Housing Corporation and has also served the local governments of Santa Barbara, Philadelphia, and Richmond, California.

Will the nominees please rise and raise your right hand? Do you swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JONES. I do.

Ms. GALANTE. I do.

Mr. HOENIG. I do.

Chairman JOHNSON. Do you agree to appear and testify before any duly constituted Committee of the Senate?

Mr. JONES. I do.

Ms. GALANTE. I do.

Mr. HOENIG. I do.

Chairman JOHNSON. Please be seated. Please be assured that your written statement will be part of the record. Please also note that Members of this Committee may submit written questions to you for the record, and you should respond to these questions promptly in order for the Committee to proceed on your nomination.

I invite all the nominees to introduce your family and friends in attendance before beginning your statement.

Mr. Jones, please proceed.

**STATEMENT OF MAURICE A. JONES, OF VIRGINIA, TO BE DEPUTY SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. JONES. Thank you, Mr. Chairman and Ranking Member Shelby. I do have my wife here with me, Lisa, who is sitting to my right, and we have been married for 10 years now. So she is with me.

Mr. Chairman, Ranking Member Shelby, and distinguished Members of the Committee, thank you for the opportunity to appear before you today as President Obama's nominee to be Deputy Secretary of HUD. I have already introduced my wife. Our most precious gift, our 9-year-old daughter, is in school this morning, but she is with us in spirit.

I am humbled by the nomination and grateful to the President for the trust he is bestowing upon me. I am also thankful to Secretary Donovan for his support. If confirmed, I pledge to work collaboratively with the Members of this Committee to ensure that HUD achieves the operational excellence the country needs from this organization.

Public service has been a passion of mine since at least my high school days in rural Lunenburg County, Virginia. In 1979, as a ninth grader, I was fortunate enough to be selected to serve as a page during that year's legislative session of the Virginia General Assembly. The experience changed my life. I observed and assisted legislators working on the public's business, and I was inspired. I resolved then to try to enter public service when I grew up.

Following law school and 3 years of law practice, I was blessed with the opportunity to work at the Treasury Department. Over the course of 6 years at Treasury, I served as Special Assistant to the General Counsel, Legal Counsel to the CDFI Fund, Deputy Director for Policy and Programs, and Director of the Fund. I loved these jobs, and they taught me valuable lessons and skills.

My experiences at the CDFI Fund, in particular, called upon me to lead people in the building of a high-performing, results-oriented Government organization with a compelling mission. And because the Fund was essentially a startup entity at that time, we had to put in place the necessary infrastructure for the programs and operations of the organization. It was on-the-job training in building a Government entity. Over a 5-year period, working collaboratively with Congress, we grew from a 10-person organization with an annual budget of \$50 million to a 60-person organization with an annual budget of \$120 million. We invested approximately \$400 million in over 300 mostly nonprofit entities that used those monies to make loans and other investments in low-income communities across America.

Following my time at the Fund and approximately 9 months with a foundation, I was honored to be asked by then-Governor, now-Senator Warner to join his administration. I started as his deputy chief of staff and subsequently also became his Commissioner of the State Department of Social Services. At Social Services, I led a team of more than 1,500 State government employees who worked with several thousand local government workers to provide social services to the people of the Commonwealth of Virginia. I spent the bulk of my time attempting to transform structures, proc-

esses, practices, and people in an effort to make the system more efficient and more effective. During my tenure, Social Services received a \$922,000 reward for increasing the number of children adopted from State-supervised foster care; earned over \$28 million in Federal incentives for record performances in child support and collections; and received around \$24 million in Federal awards for successfully placing welfare participants in jobs.

I departed the Warner administration after more than 3 years to join a regional media company. I wanted to run a newspaper because I wanted the challenge of leading a private sector enterprise that pursued both excellent business results and distinguished public service. Little did I know that I was entering an industry that was and is in the midst of the most far-reaching transformation of its history.

Very quickly I had to develop a point of view about the newspaper's biggest challenges and attempt to set us on a path to achieve our double bottom line mission. It has been an incredible educational journey, and I continue to learn lessons from the challenge. We have had to transform the way we do business in every area of the company, from integrating departments to launching new businesses, to eliminating products no longer valued by our customers. As a result, we are a debt-free, profitable enterprise well positioned to assist the community in taking advantage of its opportunities. The Virginian-Pilot has been voted the best newspaper in Virginia by its peers every year I have been its publisher.

These are the experiences I bring to the opportunity we are discussing today. HUD aspires to transform itself into an organization that consistently delivers excellent results. To realize this aspiration, bold changes are needed across the agency. I want to help lead this journey. My public and private sector work have helped to prepare me for this role. And particularly in light of the housing and related economic challenges our country continues to face, which have come down so hard on so many Americans, I can think of no more important time to be at HUD.

I am humbled by the President's decision to nominate me for this role, and I am grateful to the Committee for allowing me to appear before you today and for considering my nomination. I would be happy to answer any questions.

Thank you very much.

Chairman JOHNSON. Thank you, Mr. Jones.

Ms. Galante, please proceed.

**STATEMENT OF CAROL J. GALANTE, OF VIRGINIA, TO BE ASSISTANT SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Ms. GALANTE. Good morning, Chairman Johnson, Ranking Member Shelby, and Members of the Committee. I am honored to be here today to testify and humbled by President Obama and Secretary Donovan's decision to nominate me as Assistant Secretary for Housing, FHA Commissioner. I would also like to thank this Committee for the time you are committing to this hearing. I look forward to hearing your thoughts on the housing challenges facing the Nation, particularly FHA.

Before I begin, I would like to introduce my youngest son, Chris Roberts, who is here today. He and my older son, Matt, are both exceptional young men who I know will make the world an even better place as they proceed through their careers.

I also want to thank my wonderful husband of 26 years, Jim Roberts. Without his steadfast support, I surely would not be sitting before you all today.

Mr. Chairman, my entire professional life has been dedicated to real estate development, finance, community planning, and affordable housing and economic development. My more than three decades of experience in all three business lines served by FHA—single family, multifamily, and health care—has equipped me with a deep understanding of the industries, organizations, and individuals that HUD serves.

Immediately before my appointment as Deputy Assistant Secretary for Multifamily Housing at HUD and my subsequent tenure as Acting Assistant Secretary for Housing, I served for 13 years as President and Chief Executive of BRIDGE Housing Corporation, the largest nonprofit housing developer in California. During my tenure, I developed BRIDGE into a financially sustainable family of companies with annual revenues in excess of \$115 million and assets of more than \$1 billion. I also developed new and innovative business lines to serve our mission, such as HOMEBricks, which assists first-time homebuyers to access affordable ownership opportunities.

At BRIDGE and throughout my career, I have worked to demonstrate that partnership between the Government, private, and nonprofit sectors to create opportunity is not just good policy, but smart business, and I brought that conviction with me to HUD.

As a Deputy Assistant Secretary for Multifamily Housing, I led major changes in the office. Under my leadership, FHA Multifamily grew from an annual level of \$2.5 billion in 2008 to over \$12 billion in 2011, providing key liquidity to this market segment during the toughest housing environment since the Great Depression. In addition, I led the first major overhaul of underwriting standards and loan documents in the 40-year history of the FHA Multifamily Insurance Program. These changes allow us to more effectively manage risk while better aligning programs with the norms and practices of the private sector.

As Acting Assistant Secretary for Housing, I have continued to focus on making FHA's programs work for all our stakeholders. Toward that end, I am spearheading an overhaul of HUD's Housing Counseling Program, including the development of a new Office of Housing Counseling. Given that families receiving housing counseling are twice as likely to receive a mortgage modification, this work is particularly important as our economy continues to recovery.

In addition, I have placed a strong focus on risk management. This includes continued development of FHA's Office of Risk Management and Regulatory Affairs as well as a commitment to hold lenders accountable for noncompliance with FHA's requirements. Just last week, I hosted a kickoff meeting with FHA's new Senior Advisor for Risk and many of the recently hired Credit Risk Officers, along with their counterparts in all the program offices, so

that we can ensure that risk management is fully integrated into FHA's operational practices.

If confirmed by the Senate, I will continue to provide effective leadership for FHA in achieving its important role of providing liquidity in the Nation's housing markets while maintaining a strong focus on protecting the Department's insurance funds.

As is clear from the report we released on Tuesday regarding the current status of the FHA Mutual Mortgage Insurance Fund, FHA is at a critical juncture. As a result of the sweeping reforms instituted under Secretary Donovan's leadership, the MMI capital reserve remains positive and we have originated the highest quality books of business in FHA's history.

However, the residual effects of poor performing books from prior years will require FHA to be vigilant in managing its business moving forward. Therefore, should I be confirmed, my highest priority would be balancing of FHA's historic mission with responsible management of risk. At this important point in our economic recovery, ensuring the flow of mortgage capital necessary to restore our housing markets is vital and FHA is playing a key countercyclical effort, particularly for low- and moderate-income minority and first-time homebuyers. However, FHA can fulfill its mission only if it effectively manages the resources that make its programs available.

Thank you again for your time and for considering my nomination. I appreciate the opportunity to be here, and if I am honored to be confirmed, I will look forward to earning your ongoing trust. Thank you.

Chairman JOHNSON. Thank you, Ms. Galante.

Mr. Hoenig, please proceed.

**STATEMENT OF THOMAS M. HOENIG, OF MISSOURI, TO BE VICE CHAIRPERSON AND MEMBER OF THE BOARD OF DIRECTORS, FEDERAL DEPOSIT INSURANCE CORPORATION**

Mr. HOENIG. Thank you, Chairman Johnson, Ranking Member Shelby, Members of the Committee. It is my honor and privilege to come before you as the President's nominee to serve as Vice Chairman and Member of the Board of the Federal Deposit Insurance Corporation. I do want to thank Senators McCaskell and Blunt for their warm introduction and also Senator Moran for your kind words.

I would also like to note my appreciation for the Committee's use of technology this morning. My family cannot be here in Washington with me today, but my wife, Cynthia, who is in Missouri with our grandchildren, is able to join me through the Committee's live stream system. So they are watching, and I say that for the camera's sake and theirs.

I recognize that the job as Vice Chair for the FDIC is an important responsibility. I believe my experience in bank supervision and regulation within the Federal Reserve System for the past 38 years has prepare me for this role.

I started my career as an analyst at the Federal Reserve Bank of Kansas City, working in the areas of research and policy. During that time, I also shared responsibility as part of a team that analyzed bank holding company merger applications. Later, I was as-

signed responsibility for the Federal Reserve Bank of Kansas City's discount window lending and led the Bank's examination work for the supervision of bank holding companies and State member banks.

In 1986, I was given the opportunity to lead the Bank's Division of Bank Supervision and structure, directing the oversight of over 1,000 banks and bank holding companies ranging in size from less than \$100 million to \$20 billion in assets.

And finally, I served as President of the Federal Reserve Bank of Kansas City for 20 years, actually, from October 1991 until October of this year.

During my career, I was involved with the banking crisis of the decade of the 1980s that involved agriculture, energy, and commercial real estate. In the Tenth Federal Reserve District, we dealt with 350 banks in the Midwest and Mountain States that either failed or required assistance between roughly 1982 and 1992, including the failure of Penn Square Bank that later contributed to the failure of Continental Illinois National Bank and Trust.

As a member of the Federal Open Market Committee, I was involved in an indirect manner in the efforts to mitigate the effects of the financial panics in Asia, South America, Russia, and Mexico that occurred with regularity during the decade of the 1990s.

Finally, I worked with financial and nonfinancial firms in the Midwest through the recent financial crisis and recession.

Each one of these unfortunate events was difficult for Americans. Each one of these events provided me with experience in dealing with financial crises. I have observed how distorted financial incentives encourage institutions to take on excessive risk. Just as importantly, I understand the difficulties of managing crisis and restoring confidence to an economy that involves both Wall Street and Main Street.

Should the Senate choose to confirm me, I would serve with commitment and with the best interest of the country as my first priority as we continue to face national and global financial and economic challenges.

Thank you for the opportunity to appear before you today, and I look forward to answering questions.

Chairman JOHNSON. Thank you, Mr. Hoenig.

Ms. Galante, a major cause of the recent financial crisis was the relaxed underwriting criteria for thousands of loans that were originated during the housing boom. How has the quality of loans underwritten by FHA changed since the housing crisis? What impact are loans underwritten during the peak of the housing bubble, particularly those during 2007 and 2008, having on the capital reserve account compared to those underwritten after the burst of the housing bubble?

Ms. GALANTE. Thank you, Senator, for that question. This Administration has put in place, as I mentioned in my testimony, sweeping reforms that have resulted in the best book of business starting in mid-2009 through 2011, things like—with the help of Congress—getting rid of the seller downpayment program, which created a significant drag on our books for the previous books of business. Fourteen billion dollars is estimated by the actuary for that class of legacy loans alone.



So we have put in place many, many programs, including lender enforcement. We have the highest credit score quality in this most recent book of business, with seriously delinquent loans basically negligible for early defaults. So we have put in place numerous activities, including lender enforcement, that are resulting in, as I said, the best book of business FHA has ever had.

Having said that, we are still suffering from the very large poor performing legacy books of business and need to continue to build on the reforms that we have made.

Chairman JOHNSON. Mr. Jones, the Deputy Secretary of HUD has often served as the Chief Operating Officer of the Department, heading up its management efforts. What do you see as HUD's top management challenges? How have the experiences you mentioned in your statement prepared you to confront these challenges?

Mr. JONES. Thank you for that question, Mr. Chairman. I think there are probably two or three top challenges. I will tell you that I suspect I will learn more, if confirmed and get on the job. But based on the experience I have had both in the public and private sector, usually, your top challenge with moving any organization to a standard of excellence is having the right people in the right places, and that certainly will be one of my first focuses, is making sure that we have got a human capital system that enables us to put the best people in the best places. So that would be one.

Second to that, I think you also, particularly in these tough times, you have to make sure that the organization is operating as efficiently as possible, and that probably will require looking at financial systems, procurement systems, IT systems, all the things that if they are not running well, you will not have excellent program results.

My both public and private sector experience have enabled me to learn about all of those and I look forward to trying to bring that experience to HUD.

Chairman JOHNSON. Mr. Hoenig, one of the things that made the FDIC so effective over the last 3 years was the strong working relationship between the Chair and the Vice Chair, and it is my hope that will continue. Mr. Hoenig, can you describe how you will build a strong working relationship with the Chair of the FDIC and the other members of the Board?

Mr. HOENIG. Yes, Senator. Assuming that Mr. Gruenberg is confirmed also, and whoever the Chair is, but in this particular instance, I know we have a common interest in community banks, which is, I think, a very important part of our banking system. I also have had the opportunity to speak with members—with the staff of the FDIC. I think there are many common areas that we have. And, therefore, I feel like if I am confirmed, we would go in there and continue to have a common mission. We know we have a huge job ahead of us with Dodd-Frank as well as just dealing with the commercial banks through this time of stress. So I feel very confident that we would have a strong working relationship going forward with whomever.

Chairman JOHNSON. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Dr. Hoenig, in a speech you gave earlier this year, you stated, and I will quote, "Today, we have a far more concentrated and less

competitive banking system. There are fewer banks operating across the country, and the five largest institutions control more than half of the industry's assets, which is equal to almost 60 percent of GDP."

Senator Moran raised this earlier, about community banks and the demise of them, so we are all concerned about it. What do you believe are the principal causes of consolidation in the banking sector?

Mr. HOENIG. Well, Senator, there are probably several, one of them being just economies of scale when the technologies are brought forward.

Senator SHELBY. Mm-hmm.

Mr. HOENIG. I think another has been, and this is one thing I am sensitive to for community banks, the fact that when you do introduce new regulations, whatever the right reasons and so forth, it does put a kind of a fixed cost over those banks that require more dollars to spread those costs over and that does encourage consolidation.

So I think one of the challenges that the regulatory authorities have is to inform community banks, all banks but community banks in particular, in terms of how these regulations can be put in place, get them at least pointed in the right direction so that they can control some of those costs and compete on a cost structure basis across the broad economy, and that is essential as we go forward.

Senator SHELBY. Are our community banks not inextricably linked to a lot of the small businesses and job growth across this country—

Mr. HOENIG. I—

Senator SHELBY.—or lack thereof?

Mr. HOENIG. Absolutely, they are critical. In fact, during the recession, the community banks were, I think, very involved in lending. Even though lending was very difficult during that period, a good portion of them were still in the business of lending. You have small businesses, that it is much easier for them in many cases, and especially in communities across the United States, to look to these banks for help for loans. And so I think they are very important for the future of this country and that needs to be recognized.

Senator SHELBY. Ms. Galante, House and Senate negotiators—you probably know this—recently reached a, I call it a costly deal on extending the conforming loan limits. The deal would not boost the conforming loan limits for the GSEs but would raise FHA's loan limit from \$625,000 to \$729,000. This means that taxpayers will be subsidizing the purchase of expensive homes by wealthy buyers. Interestingly, Secretaries Donovan and Geithner have stated that the loan limits should revert to the limits established under HERA, which would keep FHA's limit at \$625,000.

What is your position on increasing FHA's loan limit to \$729,000 as would occur in this new deal, especially in view of the financial challenges that FHA has that have been pointed out here, and what steps—do you agree with Secretary Geithner and Secretary Donovan on this, or do you have a different view?

Ms. GALANTE. Thank you, Senator. Yes, it has been the Administration's position since we put out the White Paper on the housing

reform that we believe that lowering the limits is a step to ensuring that private capital will return to the market. We understand that at the present time FHA is playing a somewhat outsized role in the market, and so we continue to support the limits being returned as they did October 1.

We do understand, though, the markets are fragile and there are reasonable people who may want to see us continue to stay in the business and I would just say we will implement whatever Congress decides on this matter.

Senator SHELBY. How much household income would a borrower typically need to qualify for a \$725,000 loan from the Federal Housing Administration, just roughly?

Ms. GALANTE. Yes, I do not have those—

Senator SHELBY. Can you furnish that for the record?

Ms. GALANTE. I certainly can furnish that for the record.

Senator SHELBY. In your opinion, is helping wealthy homeowners purchase expensive homes at odds with FHA's affordable housing mission, which you have been in a long time?

Ms. GALANTE. So, again, I would say our traditional mission is to help first-time homebuyers, low- and moderate-income families, and that continues to be the core of our mission. Even when the loan limits were higher, it was a very, very small percentage of the work that FHA does.

Senator SHELBY. Mr. Jones, one of HUD's core missions is to, quote, "provide grants to States and communities for community development activities." The HOME Investment Partnerships Program, referred to as HOME, is one of the largest community development grant programs that HUD administers. HOME has been the subject, as you probably know here, of a Washington Post investigation called "Million Dollar Wasteland" and has been cited by the HUD Inspector General as having, quote, "a pattern of non-achievement in delivering its housing goals."

If confirmed to your position here, what would you do to improve the accountability and effectiveness of the HOME Program, which is under attack right now?

Mr. JONES. Yes, sir. Thank you for that question. The first thing I would do is learn the facts.

Senator SHELBY. Mm-hmm.

Mr. JONES. I have read newspaper reports and I have also seen the Department's—

Senator SHELBY. But you also have the Inspector General involved here—

Mr. JONES. I have seen the Department's response—

Senator SHELBY. Yes, sir.

Mr. JONES.—and I have not read thoroughly the IG's commentary, but I think my first job, certainly, being somebody who is coming to this new, will be to dig deeply and to find the facts. And then my job, as I see it, would be to go where the facts take me. And I understand the Department is already working on making improvements to the HOME Program. There are a proposed set of rules out there now that are being considered.

Senator SHELBY. Would this be one of your high priorities if you were confirmed?

Mr. JONES. If the Secretary says it will be, yes, sir, it will be one of my high priorities.

Senator SHELBY. Thank you.

Dr. Hoenig, a recent report by the Government Accountability Office, GAO, found that prompt corrective action has not prevented widespread losses to the Deposit Insurance Fund. In that report, the GAO found that since 2008, every bank that underwent prompt corrective action because of capital deficiencies and failed produced a loss to the Deposit Insurance Fund. The GAO further found that the presence and timeliness of enforcement actions were inconsistent. What steps should be taken to fix prompt corrective action and minimize losses to the Deposit Insurance Fund?

Mr. HOENIG. I think that is always a challenge in the bank supervision business, Senator Shelby. It is very difficult to anticipate where losses are going to be, but I think that is where, number one—

Senator SHELBY. But that is part of your supervision, is it not?

Mr. HOENIG. It is. Number one is to make sure you do have a strong capital base.

Senator SHELBY. One.

Mr. HOENIG. Number one; number two—

Senator SHELBY. And what is two?

Mr. HOENIG. To examine the assets and make sure that they are sound, and if not, to force the write-downs and then force the actions that will minimize losses, first to the bank and then to the Insurance Fund. There is always judgment in that and it can be—because there are human beings involved, it can become inconsistent. But what you have to do is keep pushing that concept, pushing around the capital standards, and strong examination procedures.

Senator SHELBY. Last, do you know of any bank—you were President of the Federal Reserve of Kansas City and you were also a member of the Federal Open Market Committee at the time—

Mr. HOENIG. Yes.

Senator SHELBY. Do you know of any bank in your area that was well capitalized and well managed and well supervised that failed?

Mr. HOENIG. I cannot think off the top of a single one. If it is well managed, well capitalized, and well supervised, they tend to earn consistently—

Senator SHELBY. That is not asking too much, is it?

Mr. HOENIG. No. That is the standard—

Senator SHELBY. That is the standard.

Mr. HOENIG. I agree. I agree with you on that.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Warner.

Senator WARNER. It is hard to quibble with the Ranking Member's qualifications of well capitalized, well managed, and well supervised. I just wish we saw more of that.

Senator SHELBY. But that should be the criteria.

Senator WARNER. Amen. Amen. Amen.

I will be very brief with my questions. One, I want to go back to Mr. Jones's comments about the best people and best places. I do think when you are dealing with large organizations, and I think about our Department of Social Services, and from an out-

sider, my view of HUD, putting the best people in the best places, easy to say, harder to do, and I would just like to commend again Mr. Jones for, when he served in my administration, what he did at the Department of Social Services where there were a series of entrenched folks who, regardless of administration, had never changed and he managed to shake the place up in a very positive way and I do believe and think that—I hope, at least, and one of the reasons why I so firmly support him, he would bring that same approach to HUD.

And while I heard your comment about following where the facts lead you on the HOME Program and that whether, answering Senator Shelby's question, whether that would be a top priority or not and your response being that if it was the Secretary's top priority, I just have to recall from personal experience, at least when we had the opportunity to work together, you followed the facts even if it was not the—you tried to at least make the case that that ought to be your boss's top priority if the facts said there was a problem.

Mr. JONES. Yes, sir.

Senator WARNER. I would like for you to comment on that in terms of perhaps clarifying a little bit to Senator Shelby your response.

Mr. JONES. Yes, you are correct, although I think I deferred to you most often, as well.

[Laughter.]

Senator WARNER. We have different memories of some of the conversations.

[Laughter.]

Mr. JONES. But, no question, I thank you for the chance to clarify. It will be my job to also make the case that HOME and other programs should be priorities, and I commit to you that, if confirmed, I will dig deeply, find the facts, and try to make a contribution to us improving across the board.

Senator WARNER. And if there are inefficiencies, inappropriate behavior, or are activities that are not commensurate with the standards—

Mr. JONES. I have one standard and that is excellence, and anything that is less than that, I am going to work on moving it up.

Senator WARNER. I thank you for that.

Mr. JONES. Across the board.

Senator WARNER. Ms. Galante, I know you have moved over into this FHA acting role now, but I do want to commend you for some of your previous work at HUD. I know we have had an incident of a case in Virginia where, with some of the HUD backlog on some of these multifamily projects, the ability to try to cut through some of the bureaucracy, and I know you have moved into this new role, but do you have any counsel for those who are still looking at HUD in terms of this huge backlog of projects that need this kind of HUD financing, since the project financing is not there, and how we might find creative ways to move it along so we do not have these bottlenecks?

Ms. GALANTE. Yes. Thank you, Senator. This is one of the consequences of going from, you know, \$2 billion a year to \$12 billion a year of business, so we are doing more and more, and our staff

certainly has not increased during that period of time. I have been having a major focus while I was in the multifamily role and will continue that—you know, multifamily is still part of the responsibilities of the Assistant Secretary for Housing—changing our business practices to ensure that we are managing the risk but that we also are moving projects on the multifamily side through the pipeline as quickly as possible, and we have major business improvement initiatives underway at this moment. We have folks out across the country rolling out changes to our processes to ensure that we can get these developments done and get them built and generate jobs and homes for people.

Senator WARNER. And I know my time has expired, so I will not get to ask Mr. Hoenig the question I wanted about cross-border resolution. I think, Senator Shelby, you raised the issues, and I know Senator Corker and I had a conversation about this, as well, on what you called the costly price on some of the homes, and I think you make a very, very good point that we need to move back from \$729,000 to \$625,000.

I would only point out that this notion that \$729,000 is only buying a mansion in many communities, I can point to, unfortunately, many places in Northern Virginia where \$729,000 buys you a one-bedroom condo, and I am not sure that that necessarily is the case in every market around the country, obviously, but there are areas where that price does not compete.

Again, Senator Corker and I had a great exchange on the floor about when and how we move back those numbers and you may actually have been right on that.

Senator SHELBY. Well, we are moving in the right direction. We just did not get FHA to move.

Senator WARNER. Yes.

Senator SHELBY. You know, FHA should have, of all people, moved, in my judgment.

Senator WARNER. Yes. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you.

Senator Corker.

Senator CORKER. Thank you, Mr. Chairman, and thank you for the exchange we just had and I hope we have many more.

I want to say to Ms. Galante, thank you for your service. I think what I just heard you say is that you all really are not in support of FHA's limits being raised to the level that the House is sending over to us in this conference report, is that correct?

Ms. GALANTE. That is correct, Senator. We maintain that it is appropriate to take a step back on the loan limits.

Senator CORKER. Yes. I just want to say, I do not know how some of the organizations like you lead deal with the hypocrisy of Congress basically saying that we need to lower limits and move away from Fannie and Freddie and yet finding this back-door way for FHA to basically fill in the gap. While I agree with the comments that Senator Warner made, there are, in fact, loans being made in the private markets above the \$625,000 level that are happening every single day. So I have to tell you, I think it is unconscionable what is coming over from the House, totally unconscionable, and I am going to do everything I can to urge as many Senators as I can to vote against the conference report because of the lack of courage

that this body is showing in actually moving in the direction that we all know we need to move.

And I would say to you, this is not reprimanding in any way, but the Administration did send out a White Paper, but a White Paper and a bill are two very different things, and it was a multiple choice White Paper, pick which you like.

I will say that we have offered a piece of legislation that I hope will attract people like Senator Warner and others that I think is thoughtful and will move us over a 10-year period away from the reliance that we have on Fannie and Freddie, and I sure hope that you and your Department will look at that and offer any comments that you might have.

But again, I thank you for your leadership. I thank you for your statement. And I am just absolutely so discouraged at Congress in lacking the courage to deal with this issue that we all know needs to be dealt with.

With that, I will move to Mr. Hoenig. I thank you for coming by the office the other day. I think you know that. We talked a little bit about Title II, and obviously as Vice Chairman, Title II in the Dodd-Frank bill, as Vice Chairman, you are going to be in charge of orderly liquidations, I think, and my question to you, number one is do you think that the FDIC has the ability to unwind a highly complex top five banking entity in this country if it fails?

Mr. HOENIG. I think, Senator, that will be one of the major challenges—is one of the major challenges that the regulatory agencies and the FDIC in particular have ahead of them. These institutions are, some of them, over a trillion dollars, and the impact of a failure on the economy will be unavoidably bad. So how you do this under the law that Dodd-Frank has given us is, I think, the great challenge that the FDIC has in front of it.

There was reference to, first of all, understanding the organization that might be insolvent. You have to make that choice of whether it is solvent or a liquidity crisis. You have to do it in a very short period of time and you have to have the right steps in place to take control, make a decision whether it is in bankruptcy and so forth.

So I think we will find out only when the time comes for sure when you have to then execute these actions to deal with these very large institutions. It is not magic. It is not automatic. It is going to take a lot of hard work between now and some hopefully long time in the future situation that we have to confront.

Senator CORKER. It is interesting. I have had some calls from some of the larger institutions that know that you are going to be doing what you are doing, and obviously you have made a lot of comments, I think, in the past about the fact that any organization that is too big to fail is too big. And some of them are concerned. I think it is an interesting dynamic, personally, and I thank you for bringing many of these thoughts to the table, but a lot of them are concerned that maybe their funeral plans do not quite meet your standards and you break them apart anyway. I would love for you to expand—and, by the way, I am not giving judgment on that. I am just expressing something that has been expressed to me. I would love for you to talk a little bit about what you think ought to happen with some of our larger institutions. And, second, will

that affect how you look at the “funeral plans” that each of these have to produce and I think you have to approve? Is that correct?

Mr. HOENIG. Correct. Yes. And let me say, I am not against big. I have said that several times. I am against “too big to fail” because “too big to fail” does impact the taxpayer in significant ways. And what my concern has been—and I voiced this—is that if you take the safety net and you place it underneath these institutions and you give them and their creditors protections that they know or presume strongly are in place, then they do increase the risk and they do increase the fragility. And you can see it as an example in leverage because the higher the safety net, the more you tend to encourage leverage, so you get a higher return on equity.

Now, if you have strong capital, you compete from a position of strength. If you are highly leveraged, you are vulnerable.

So I think it is incumbent upon these institutions to understand themselves and their risk profile and how much capital they have, and then it is very important that the regulatory agencies and the Federal Deposit Insurance Corporation understand these institutions, and that if they present these living wills, what we choose to call them, they have to be understandable. And if the management and the directors do not understand it, I do not think we can understand it.

So the burden is on them to show that they are manageable, that their risks will not impact the taxpayer in the future, and that is capitalism. And I think I would be supportive of that. But I do not support future bailouts by the taxpayer for institutions that are allowed to take on too much risk.

Senator CORKER. Mr. Chairman, I thank you for letting me talk with the witness 120 seconds over. I will say to you that I am looking forward to this. I could not agree more with you that we need to absolutely end any thought of taxpayer bailouts.

Title II was crafted—and it was not crafted exactly perfectly, in my opinion, and I want you to know, as I told you in the office, we are working on a bankruptcy title to create a much bigger bankruptcy—or much better bankruptcy provision also for highly complex financial institutions. I look forward to working with you on that, and I certainly look forward to seeing what you are going to do at the FDIC to ensure that we do not have a situation where “too big to fail” continues to be part of our vernacular. Thank you and I look forward to your service.

Mr. HOENIG. Thank you.

Chairman JOHNSON. Senator Menendez.

Senator MENENDEZ. Well, thank you, Mr. Chairman. I appreciate all of the nominees. Congratulations on your nominations. I have had the chance to meet with them all.

I want to start off with something that both Senator Isakson and I have been pursuing and that got strong bipartisan support here in the Senate of 60 votes, and some of my colleagues have talked about it in more disparaging ways, but I have a different view of it, and that is, loan limits. The reality is that, according to CBO, who does the scoring around here, loan limits will not cost the taxpayers one dime, and I think that is incredibly important. And the suggestion that this is only about the wealthy, the reality is that this does not just affect high-cost loans because hundreds of coun-



ties experienced FHA loan limit declines from around the high \$300,000s to about \$270,000 per year.

Now, you know, I wish that people throughout the country could be able to obtain homes in that price range, but if you live on the coasts of this country, which have a huge amount not only of the land mass but the population mass of the country, the reality is that costs for homes are simply much higher than that.

And so we would be taking out of the housing market at a critical time in which the housing market is already facing enormous challenges a key component of being able to help a large universe of people who can be responsible borrowers and for which it will not cost the taxpayers any money at all, you know, a vehicle by which they can get access to a mortgage.

Now, Ms. Galante, am I misstating the fact that it is not just a question of the higher limits but the fact that there are declines from the high \$300,000s to around \$270,000 per year that affect numerous counties throughout the Nation?

Ms. GALANTE. Senator, that is correct. I do not have the exact number of counties in front of me, but there are hundreds of counties that are affected by the change in the loan limits, and you are correct, it is not just about the highest amounts.

Senator MENENDEZ. And let me ask you this: We have had numbers run that suggest that actually the higher-cost loans actually have better performance records than others. To your knowledge is that true?

Ms. GALANTE. Yes, Senator. We have not had a large opportunity to investigate this, but based on our historical data, again, we have done a small number that are at the higher limits. But our data does show lower seriously delinquent percentages for loans that are in a higher loan category.

Senator MENENDEZ. So the reality is, if our information is right and, you know, the universe that you have already reviewed, although maybe not as large as you would like to, shows that, in fact, there are lower loan defaults, it seems to me that we improve FHA's financing. So, you know, I certainly hope that our colleagues will join the House and support the effort here when we come to passage.

Let me ask you, I announced at a previous hearing that I am working on a bill to promote shared appreciation mortgages at FHA as one—there is no simple silver bullet to solve our whole housing challenge—that has multiple dimensions to it—but as one creative solution to part of our housing constants. What do you think of shared appreciation mortgages where lenders reduce principal in exchange for a percentage of future home price appreciation?

Ms. GALANTE. Yes, Senator. I think that is something that we should look at very carefully and thoughtfully. I do agree that shared appreciation can be a good vehicle. I can tell you not in the context that you are referring to but in the affordability context I have a tremendous amount of experience with shared appreciation mortgages and their benefits to homeowners.

Senator MENENDEZ. Mr. Hoenig, let me ask you a question. You and I had a conversation. I often hear, as I listen to community banks who tell us that their regulators often speak to them in a

different way than we speak to them—we are saying we would like to see responsible lending, not speculative lending but responsible lending to take place, and we would like to see that as one of the methods in which we grow this economy. I listen to business people all the time who say, “Senator, even in this economy, I have a business that can grow, but I cannot get access to capital unless I give my firstborn and several points over LIBOR, in which case I really do not need a loan at that point.”

The question is, they say that the regulators actually go in and, for example, on performing assets tell them, well, you know, even though it is performing and everything is on time, you have to recapitalize this, or there are other messages being given. Do you see it as part of your mission, should you be confirmed, to strike the right balance here at the end of the day?

Mr. HOENIG. Senator, if I am confirmed, I think the right balance is absolutely essential. You know, when you go into a recession, the banks are under stress, the borrowers are under stress, and, therefore, there are a lot of issues around extending loans, growing loans, and so forth. And I think that I have noticed in this recession that community banks, broadly, have—some of them had to deal with commercial loans problems, but many, almost half at least, actually did increase their loans to businesses during this period. They were, I think, very committed to their communities. I think community banks are. And I think examiners want that to happen as well.

Now, they have their own set of criteria in terms of sound supervision, having the right balance, and trying to strike that right balance. And it is not simple. There is always that shade of gray, what do you do, and I think that is where a lot of the confusion comes from. But my own view is, if I were confirmed, to work with the regional directors for the FDIC, pushing for that balance to make sure that the community needs are met and that the banks have a sound portfolio in meeting those needs. No simple matter, but essential.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Johanns.

Senator JOHANNNS. Mr. Chairman, thank you. And to each and every one of you who are on the panel today seeking confirmation, congratulations on really a great history that you all bring here. I have been sitting here, as you know, throughout the hearing, and the amount of experience is remarkable, and it is encouraging because you face some tough problems.

I just wanted to offer a few thoughts, if I could, and if I have any additional questions, then I will submit them for the record and get responses back from you. But let me start with you, Tom. One thing that strikes me about you is that not only do you have bipartisan support, which is obvious, it is also very clear that you have community support. The thing about your nomination, I can expect to get a call from a president of a bank, and the next call might be from the leader of a union. And that is not always an easy pathway to navigate through, but you have successfully done it. You have earned their respect. And I am excited about you serving at the FDIC with all the experience that you have.

If I would offer a thought, it would be I think we have got to pay attention to what is happening out in our more rural States. Things have been good. We see a very strong AG economy, but I must admit I am worried about land values. I see just hugely remarkable numbers in terms of land appreciation. We know from the 1980s that what goes up does tend to come down, and there will be a correction at some point. And if people are overleveraged, then this is going to be a bad deal for the community banks. We remember how many were closed or consolidated or whatever during the 1980s. It can happen again, and I just worry that there may be some warning signs out there.

I worry that because of the difficulty of banks being profitable, the temptation is going to be to take on more risk. Everybody wants the AAA person. They may be stretching now to try to figure out how they make some money.

In terms of the FHA, I have to tell you, I am so worried about where we are headed there, and I listened to your responses very carefully. Gosh, I am always impressed when somebody figures out how to do things better. But that does not solve the problem here. The problem is that you inherit a portfolio that stinks.

There are a lot of underwater people out there, and there is going to be no easy way to get through this. We need to know how to deal with that, and I just think we have got a Fannie and Freddie phenomenon headed our way, and I am very concerned about how we would deal with that just because of the financial condition of the United States.

Then with HUD, if I were to offer just one thing there, I hear from my housing authorities—and they do such great work. I worked with them as a mayor and when I was Governor. They really feel that the regulatory challenges that they face are unnecessary in many respects—not that we believe regulation should go away. That is not what I am saying. But they feel like, you know, the housing authority for a small community is facing the same regulatory issues that Houston is facing, and they are going, “Wait a second. We are not close to that. We know the people that we manage by first name, and we know their kids and their grand kids.” And so any way that you can bring some stability to that and some balance to that will be greatly appreciated.

Those are my words of wisdom for each of you. I wish you all the very, very best. You have huge challenges in front of you but great experience to meet those challenges, and I look forward to working with all of you.

Chairman JOHNSON. I thank the nominees for your testimony and for your willingness to serve our Nation. I ask all Members of this Committee to submit questions for the record by the close of business on Tuesday, November 22. I would also like to remind our nominees to please submit your answers to us in a timely manner so that we can move your nominations forward as quickly as possible.

This hearing is adjourned.

[Whereupon, at 11:28 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

**U.S. Senator Barbara Boxer  
Statement for Senate Banking, Housing, and Urban Affairs Committee  
Confirmation Hearing of Carol Galante to be Assistant Secretary, U.S. Department of  
Housing and Urban Development  
November 17, 2011**

It is my honor to support the nomination of Carol Galante to the position of Assistant Secretary for Housing and Commissioner of the Federal Housing Authority at the U.S. Department of Housing and Urban Development.

Carol has a long and distinguished career in California and of building and promoting affordable housing.

She received her bachelor's degree from Ohio Wesleyan University and later earned a Masters of City and Regional Planning at the University of California, Berkeley.

Carol began her career in housing as a Housing Coordinator for the City of Santa Barbara, rising to become the city's Housing and Redevelopment Manager.

She moved on from administering housing programs to housing creation with Eden Housing, a non-profit affordable housing developer, where she developed over 400 homes as a Project Manager and eventually took over as Executive Director.

Carol joined BRIDGE Housing Corporation as Vice President and in 1996 took the helm of that organization as President and Chief Executive. BRIDGE is the largest non-profit developer of affordable, mixed-income and mixed-use developments in California. While there, Carol oversaw the creation of over 13,000 affordable homes for more than 35,000 Californians, and programs that helped one-fourth of their residents advance to homeownership.

In 2009, President Obama appointed Carol as HUD's Deputy Assistant Secretary for Multifamily Housing Programs, where she oversaw a \$50 billion portfolio of affordable and market rate multifamily properties through the FHA Multifamily Insurance Program. At a time when support for housing was desperately needed, she took a smaller staff and grew annual lending from \$2.5 billion in 2008 to over \$10 billion in 2010.

As FHA Acting Commissioner, she has strengthened the agency, weeding out bad lenders, ensuring greater stability of the Home Equity Conversion Mortgage (or reverse mortgage) program, and increasing counseling resources for borrowers.

Carol's accomplishments have been recognized through numerous honors, including inductions into the halls of fame for Bay Area Business Leaders, California Home Building, and the California Housing Consortium.

Carol also has the strong support of a broad coalition of housing advocates and lenders. In a letter to the committee, a group of over 30 such groups, ranging from the Center for Responsible Lending to the Mortgage Bankers Association stated:

“[H]er 31-year long private sector real estate experience has prepared her well to be the Assistant Secretary.... As the nation’s housing market remains fragile, we need Ms. Galante’s demonstrated experience at FHA to provide leadership on and practical solutions to America’s housing challenges.”

In short, Carol’s strong record of promoting housing opportunities and managing large scale housing programs is exactly what the Federal Housing Authority needs in these challenging times, and I am confident she will make an excellent assistant secretary and commissioner.

I close by congratulating Carol and her family on this momentous day, and I urge my colleagues in the Senate to move swiftly to confirm her. Thank you.

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**PREPARED STATEMENT OF MAURICE A. JONES**

NOMINEE FOR DEPUTY SECRETARY  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

NOVEMBER 17, 2011

Mr. Chairman, Ranking Member Shelby and distinguished Members of the Committee, thank you for the opportunity to appear before you today as President Obama's nominee to be Deputy Secretary of the Department of Housing and Urban Development. Before I begin, I would like to introduce my wife, Lisa, who is here with me today and has been my partner in life for the last decade. Our most precious gift, our 9-year-old daughter, Michela, is in school this morning, but she is with us in spirit.

I am humbled by the nomination and grateful to the President for the trust he is bestowing upon me. I am also thankful to Secretary Donovan for his support. If confirmed, I pledge to work collaboratively with the Members of this Committee to ensure that HUD achieves the operational excellence the country needs from this organization during these challenging times.

Public service has been a passion of mine since at least my high school days in rural Lunenburg County, Virginia. In 1979, as a ninth grader, I was fortunate enough to be selected to serve as a page during that year's legislative session of the Virginia General Assembly. The experience changed my life. I observed and assisted legislators working on the public's business, and I was inspired. I resolved, then, to try to enter public service when I grew up.

Following law school and 3 years of law practice in a firm in Richmond, Virginia, I was blessed with the opportunity to work for the U. S. Treasury Department. Over the course of 6 years at Treasury (from 1995–2001), I served as Special Assistant to the General Counsel, Legal Counsel to the Community Development Financial Institutions Fund, Deputy Director for Policy and Programs and Director of the Fund. I loved these jobs, and they taught me valuable lessons and skills.

My experiences at the CDFI Fund, in particular, called upon me to lead people in the building of a high-performing, results-oriented government organization with a compelling mission. And because the Fund was essentially a startup entity at the time I joined the team, we had to put in place the necessary infrastructure for the programs and operations of the organization. It was on the job training in building a government entity. Over a 5-year period, working collaboratively with Congress, we grew from a 10-person organization with an annual budget of \$50 million to a 60-person organization with an annual budget of \$120 million. We invested approximately \$400 million in over 300 mostly nonprofit entities that used those monies to make loans and other investments in low-income communities across America.

Following my time at the Fund and approximately 9 months with a foundation in the Washington Metropolitan area, I was honored to be asked by then Governor, now Senator, Warner, to join his Administration. I started as his Deputy Chief of Staff and subsequently also became his Commissioner of the State Department of Social Services. At Social Services, I led a team of more than 1,500 Administration government employees who, in turn, worked through several thousand local government workers in 121 localities to provide social services to the people of the Commonwealth of Virginia. I spent the bulk of my time attempting to transform structures, processes, practices and people at Social Services in an effort to make it a more efficient and effective system throughout the State. During my tenure, Social Services: received a \$922,000 reward for increasing the number of children adopted from Administration-supervised foster care; earned over \$28 million in Federal incentives for record performances in child support and collections; and received around \$24 million in Federal awards for successfully placing welfare participants in jobs and improving their job retention and wage advancement capacities.

I departed the Warner Administration after more than 3 years to join a regional media company in the Hampton Roads area of Virginia, Pilot Media. I wanted to run a newspaper because I wanted the challenge of leading a private sector enterprise that pursued both excellent business results and distinguished public service. Little did I know that I was entering an industry that was and is in the midst of the most far-reaching transformation of its history.

I knew nothing about newspapers when I joined The Virginian-Pilot. Very quickly I had to develop a point of view about our biggest challenges and attempt to set us on a path to achieve our double bottom line mission in these uncertain times. It has been an incredible educational journey, and I continue to learn lessons from the challenge. And we are weathering the times quite well. We have transformed the way we do business in every area of the company, from integrating departments to launching new businesses, to eliminating products no longer valued by our cus-

tomers. As a result, we remain a debt-free, profitable enterprise well-positioned to assist the community in taking advantage of its opportunities and confronting its threats. The Virginian-Pilot has been voted the best newspaper in Virginia by its peers every year I've been its Publisher.

These are the experiences I bring to the opportunity we are discussing today. HUD aspires to transform itself into an organization that consistently delivers excellent results, as reflected in Goal 5 of its 2010–15 Strategic Plan. To realize this aspiration, transformations across the agency are necessary. I want to help lead this journey. My public and private sector work have helped me to prepare for this role. And particularly in light of the housing and related economic challenges our country continues to face, which have come down so hard on so many Americans, I can think of no more important time to work at HUD.

I am humbled by the President's decision to nominate me for this role, and I am grateful to the Committee for allowing me to appear before you today and for considering my nomination. I would be happy to answer any questions.

Thank you very much.

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## **PREPARED STATEMENT OF CAROL J. GALANTE**

NOMINEE FOR ASSISTANT SECRETARY  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

NOVEMBER 17, 2011

Good morning, Chairman Johnson, Ranking Member Shelby, and Members of the Committee.

I am honored to appear before you today and humbled by President Obama's and Secretary Donovan's decision to nominate me as Assistant Secretary for Housing—FHA Commissioner. I would also like to thank the Committee for scheduling this hearing and considering my nomination.

Before I begin, I would like to introduce my youngest son, Chris Roberts, who is here today. He and my older son, Matt are both exceptional young men who I know will make the world an even better place as they proceed through their careers. I also want to thank my wonderful husband of 26 years, Jim Roberts. Without his steadfast support, I would not be sitting before you all today.

Mr. Chairman, my entire professional life has been dedicated to real estate development and finance, community planning, and affordable housing and economic development. My more than three decades of experience in all three business lines served by FHA—single family, multifamily, and healthcare—has equipped me with a deep understanding of the industries, organizations and individuals that HUD serves.

Immediately before my appointment as Deputy Assistant Secretary for Multifamily Housing at HUD and my subsequent tenure as Acting Assistant Secretary of Housing, I served for 13 years as President and Chief Executive of BRIDGE Housing Corporation, the largest nonprofit housing developer in California. During my tenure, I developed BRIDGE into a financially sustainable family of companies with annual revenues in excess of \$115 million and assets of more than \$1 billion dollars. I also developed new and innovative business lines to serve our mission such as HOMEBricks which assists first time homebuyers to access affordable ownership opportunities.

At BRIDGE, and throughout my career, I have worked to demonstrate that partnership between the Government, private and nonprofit sectors to create opportunity is not just good policy—but smart business. And I brought that conviction with me to HUD.

As the Deputy Assistant Secretary for Multifamily Housing, I led major changes in the Office. Under my leadership, FHA multifamily lending grew from an annual level of \$2.5 billion in 2008 to over \$12 billion in 2011—providing key liquidity to this market segment during the toughest housing environment since the Great Depression.

In addition, I led the first major overhaul of underwriting standards and loan documents in the 40 year history of the FHA Multifamily Insurance Program. These changes allow us to more effectively manage risk while better aligning programs with the norms and practices of the private sector.

As Acting Assistant Secretary for Housing, I have continued to focus on making FHA's programs work for all of our stakeholders. Toward that end, I am spearheading a major overhaul of HUD's Housing Counseling Program, including the development of a new Office of Housing Counseling.

Given that families receiving housing counseling are twice as likely to receive a mortgage modification, this work is particularly important as our economy continues to recover.

In addition, I have placed a strong focus on risk management. This includes continued development of FHA's Office of Risk Management and Regulatory Affairs, as well as a commitment to hold lenders accountable for non-compliance with FHA's requirements. Just last week, I hosted a "kick-off" meeting with FHA's new Senior Advisor for Risk and many of the recently hired Credit Risk Officers, along with their counterparts in all of the Program offices so that we can ensure risk management is fully integrated into FHA operational practices.

If confirmed by the Senate, I will continue to provide effective leadership for FHA in achieving its important role of providing liquidity in the Nation's housing markets while maintaining a strong focus on protecting the Department's insurance funds.

As is clear from the report we released on Tuesday regarding the current status of the FHA Mutual Mortgage Insurance Fund, FHA is at a critical juncture. As a result of the sweeping reforms instituted under Secretary Donovan's leadership, the MMI capital reserve remains positive and we have originated the highest quality books of business in FHA's history. However, the residual effects of poor performing books from prior years will require FHA to be vigilant in managing its business moving forward.

Therefore, should I be confirmed, my highest priority would be the balancing of FHA's historic mission with responsible management of risk. At this important point in our economic recovery, ensuring the flow of mortgage capital necessary to restore our housing markets is vital. And FHA is playing a key countercyclical role in that effort, particularly for low-to-moderate income, minority and first-time homebuyers. However, FHA can fulfill its mission only if it effectively manages the resources that make its programs available.

Thank you again for your time and for considering my nomination. I appreciate the opportunity to be here and, if I am honored to be confirmed, I will work hard to earn your ongoing trust.

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#### **PREPARED STATEMENT OF THOMAS M. HOENIG**

NOMINEE FOR VICE CHAIRPERSON AND MEMBER OF THE  
BOARD OF DIRECTORS, FEDERAL DEPOSIT INSURANCE CORPORATION

NOVEMBER 17, 2011

Thank you, Chairman Johnson, Ranking Member Shelby, Members of the Committee, it is my honor and privilege to come before you as the President's nominee to serve as Vice Chairman and Member of the Board for the Federal Deposit Insurance Corporation.

I recognize that the job as Vice Chair for the FDIC is an important responsibility. I believe my experience in bank supervision and regulation within the Federal Reserve System for the past 38 years has prepared me for this role.

I started my career as an analyst at the Federal Reserve Bank of Kansas City, working in the areas of research and policy. During that time, I also shared responsibility as part of a team that analyzed bank holding company merger applications.

Later, I was assigned responsibility for the Federal Reserve Bank of Kansas City's discount window lending and led the Bank's examination work for the supervision of bank holding companies and State member banks. In 1986, I was given the opportunity to lead the bank's Division of Bank Supervision and Structure, directing the oversight of over 1,000 banks and bank holding companies ranging in size of less than \$100 million to \$20 billion in assets. Finally, I served as President of the Federal Reserve Bank of Kansas City for twenty years from October 1991 until October of this year.

During my career, I was involved with the banking crisis of the decade of the 80s that involved agriculture, energy and commercial real estate. In the Tenth Federal Reserve District, we dealt with 350 banks in the Midwest and Mountain states that either failed or required assistance between 1982 and 1992, including the failure of Penn Square Bank that later contributed to the failure of Continental Illinois National Bank And Trust.

As a member of the Federal Open Market Committee, I was involved in an indirect manner in the efforts to mitigate the effects of the financial panics in Asia, South America, Russia and Mexico that occurred with regularity during the decade of the 90s. Finally, I worked with financial and nonfinancial firms in the Midwest through the recent financial crisis and recession.



Each one of these unfortunate events was difficult on Americans. Each of these events provided me with experience in dealing with financial crises. I have observed how distorted financial incentives encourage institutions to take on excessive risk. Just as importantly, I understand the difficulties of managing a crisis and restoring confidence to an economy that involves both Main Street and Wall Street.

Should the Senate choose to confirm me, I would serve with commitment and with the best interest of the country as my first priority as we continue to face national and global financial and economic challenges.

Thank you for the opportunity to appear before you today and I look forward to answering any questions.



**RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY  
FROM MAURICE A. JONES**

**Q.1.-a.** Mr. Jones, the HOME Investment Partnerships Program (“HOME”), has been the subject of additional oversight by the HUD Office of Inspector General and is the focus of a *Washington Post* investigation called “Million-Dollar Wasteland.”

At a Congressional hearing earlier this year, the HUD Assistant Inspector General for Audit testified on HUD’s management of the HOME program. He stated:

The most common finding throughout our audit reports is the lack of adequate controls, including: subrecipient activities, recapture provisions, over-reporting program accomplishments, and ineligible activities. There is also a repetitive thread of not meeting the HOME objective to provide affordable housing or not meeting local building code requirements for housing rehabilitation work.

If confirmed, will you commit to ensuring that HUD tightens its internal controls of HOME, provides adequate oversight over funds spent, holds recipients accountable for results, and carefully monitors projects through completion?

**A.1.-a.** As I stated at the Committee hearing, if I am confirmed, I commit to find the facts with respect to these and other allegations concerning the HOME and other programs, and I will then work hard to help improve HOME and other programs. My priority will be to ensure that HUD serves as a responsible steward of taxpayer funds while meeting the needs of the individuals the program is designed to serve. My standard will be excellence across the board.

My understanding is that as a result of provisions included in FY 2012 appropriations legislation for HUD, as well as in HUD’s proposed HOME rule, increased oversight, monitoring, accountability, and tightening of controls with respect to HOME will be mandated. For example, I understand that jurisdictions participating in HOME will be required to: certify that underwriting of projects has occurred indicating that developers have the experience and financial capacity to carry out projects; monitor construction progress and conduct an inspection at completion; and complete projects in 4 years (with a 1-year extension in some cases) or return HOME funds to the treasury.

**Q.1.-b.** What, in particular, would you do in each of these areas to make HOME a more effective program?

**A.1.-b.** Without having investigated the facts and reviewed in detail the steps already underway, it would be difficult to be more specific at this point than to say that I commit to find the facts and then work hard to help make any appropriate improvements. Based on my understanding of the relevant provisions in the FY 2012 appropriations legislation and in HUD’s proposed HOME rule, there will be improvements in each of these areas.

If confirmed, I would be pleased to discuss this issue further with you or your staff after completing that review, as well as the other questions you have raised concerning the HOME program.

**Q.2.** Related to this, one of HOME's most significant issues is its lack of clear audit trails. The HUD Assistant Inspector General for Audit testified that:

In sum, we believe that HUD's information systems used to administer the HOME program are incapable of producing complete and reconcilable audit trails throughout the entire grant life cycle and are unable to produce reports which would facilitate timely identification of fraud, waste and abuse in the programs.

If confirmed, what would you do to clarify HOME's audit trails and improve its information systems?

**A.2.** As I stated at the Committee hearing, if I am confirmed, I commit to find the facts with respect to these and other allegations concerning the HOME and other programs, and I will then work hard to help improve HOME and other programs. It is my understanding that under this Administration, HUD has agreed with many of the Inspector General concerns about the HOME information system, has raised such concerns on its own, and has sought funding to make improvements. I further understand that a number of system improvements are in the process of being implemented, and I look forward to learning more about them and seeking further improvements as appropriate if I am confirmed.

**Q.3.** In addition, in recent testimony, the HUD Acting Deputy Inspector General specifically pointed out the lack of oversight of subgrantees receiving HOME funds. He remarked that "in some instances, no monitoring is occurring, particularly at the subrecipient level."

If confirmed, would you commit to additional monitoring and oversight of HOME subrecipients?

**A.3.** As I stated at the Committee hearing, if I am confirmed, I commit to find the facts with respect to these and other allegations concerning the HOME and other programs, and I will then work hard to help improve HOME and other programs. My understanding is that because HOME is a block grant program, significant responsibility for monitoring and oversight of subrecipients is placed on participating jurisdictions, who have accountability for the results of HOME projects, and that some of the changes discussed above in the FY 2012 appropriations law and in the proposed HOME rule will improve monitoring and oversight in this area.

**Q.4.** The *Washington Post* illustrated that some of the metrics used to signify completion of HOME projects are often unreliable and confusing. The *Post* mentions "dozens of projects that HUD claimed were built and occupied had inconsistencies in completion dates and unit counts."

If confirmed, what would you do to fix flaws in HUD's reporting system and improve the program's metrics?

**A.4.** If I am confirmed, I would find the facts with respect to these allegations and work hard at improving HOME in appropriate respects, using the priorities and the standard of excellence described

above. My understanding is that there are pending improvements in HUD information systems and accountability by participating jurisdictions, as a result of the FY 2012 appropriations law, the proposed HOME rule, and pending information system improvements initiated by HUD, which may help remedy any such problems.

**Q.5.** Mr. Jones, during your tenure there, the Community Development Financial Institutions (“CDFI”) Fund was the subject of a Majority Staff Report compiled by the House Committee on Financial Services Subcommittee on General Oversight and Investigations. The report highlights a lack of documentation associated with certain CDFI awards and the presence of undated evaluation memos found in CDFI files. The Inspector General for the Treasury Department concluded that the undated memos were written at the last minute prior to a Congressional staff review and that they contained deliberately misleading information about CDFI awards.

Are you aware of this report? Can you clarify your involvement, if any, in the actions described by the report?

**A.5.** I am aware of this report and cooperated fully in extensive interviews with Subcommittee staff with respect to its preparation, as I did concerning the Inspector General (“IG”) report. Most of the staff report focuses on issues relating to the conduct of the then-director and deputy director of the CDFI Fund concerning its first round of awards, which were almost complete by the time I joined the Fund as legal counsel in the spring of 1996. With respect to the undated memos, as the staff report and the IG report state, in my capacity as legal counsel to the Fund, I specifically “rejected” the deputy director’s suggestion of placing undated memos in the files and “advised him to place current dates” on such materials.<sup>1</sup> The Subcommittee and the IG found that the deputy director nevertheless placed undated memos in the files, and he and the director resigned from the Fund shortly after the IG report. The staff report also noted that I advised as legal counsel that awards should not be made until evaluation memos and other required documentation was completed, and that I was involved in seeking to improve the CDFI Fund award process for the second round of awards. See Staff Report at 35, 53–54, 99. I continued to work at the CDFI Fund on further improvements to the award process, keeping in mind the concerns raised both by the IG and the staff report.

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#### **RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM CAROL J. GALANTE**

**Q.1.** During your confirmation hearing you seemed to suggest that by making more loans to people with high income, FHA could improve its financial condition and, therefore, Congress should raise FHA’s loan limits. In previous questioning, however, you have stated that you oppose raising the loan limits, as is consistent with the

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<sup>1</sup> See *Review of Management Practices at the Treasury Department’s Community Development Financial Institutions Fund*, Majority Staff Report for Subcommittee on General Oversight and Investigations, House Committee on Banking and Financial Services (June, 1998) (“Staff Report”) at 23 (quoting Inspector General report). The Staff Report specifically noted that I denied the former deputy director’s claim that I had “vaguely concurred” with his decision to leave the memos undated. *Id.* at 42.

positions of Treasury Secretary Timothy Geithner and HUD Secretary Shaun Donovan.

Setting aside the accounting differences that cause loan limit increases to cost the Government money for the GSEs, but appear to save money within FHA, do you believe that FHA should increase the number of larger mortgages to wealthy borrowers in an effort to improve its financial condition?

**A.1.** Let me begin by clarifying my statements on the topic of loan limits. First, I did state and continue to maintain that the Administration's position is that lowering the loan limits back to their historical levels (as happened on October 1, 2011) is an important step in enabling private capital to begin to reassert itself in the marketplace. As you mention, this position is consistent with the positions of both Treasury Secretary Timothy Geithner and HUD Secretary Shaun Donovan. I also stated that the Administration certainly understood why at this point in the market's fragile recovery, some people may believe this is not the time to take such a step. While acknowledging that, the Administration still stands behind its position.

In response to a question regarding the potential *impact* of a proposed increase to FHA's loan limits, I stated that based on the limited data available to FHA on higher loan limit borrowers, I did not see that such a move would have a negative impact on FHA finances, and in fact, based on default rates of these borrowers being somewhat lower than for average FHA borrowers, it could have a positive impact on the Fund's finances. I would add here for the record that our data is limited on this point because the percentage of high loan limit borrowers is based only on the 2008–2011 book of business that enabled the higher loan limits, and further, that the percentage of FHA's business in this high loan limit space was approximately 2–3 percent by loan count and 6–7 percent by dollar volume in 2010 and 2011. We also do not know, given that FHA is generally a more expensive alternative in terms of monthly payment (because of the mortgage insurance premium) how much of this business will eventually come to FHA as opposed to using private capital sources.

The fact is that while higher loan limits are not likely to hurt the FHA, and could in fact add some modest benefit, the Administration continues to believe that it is an appropriate time to lower the loan limits in order to encourage private capital to return to the market.

**Q.2.** In your testimony you state, "my highest priority would be the balancing of FHA's historic mission with responsible management of risk."

What specific borrower characteristics do you believe place FHA most at risk? If confirmed, what changes would you make to reduce this risk?

**A.2.** There is not one particular borrower characteristic that places the FHA at risk. It is almost always a combination of factors that predict success or failure of a borrower, including FICO score, consistency of employment/source of income, debt-to-income ratios, down payment and source of down payment, cash reserves, and other related factors. These factors are considered in "TOTAL

Scorecard”—FHA’s system for evaluating the credit risk of a loan. This Administration has taken significant steps to evaluate these borrower characteristics and has already made major improvements including requiring a minimum FICO score of over 500 and a two tier evaluation of FICO and down payment amount. FHA now requires a 10 percent down payment for borrowers with FICO scores under 580.

Additional credit factors that are being evaluated moving forward include a requirement for housing counseling for certain higher risk loans, changes in cutoff points within TOTAL for automatic approval (and requiring more manual underwriting), and publication of a final rule regarding allowable seller concessions, which lowers the amount of seller funded concessions permitted for closing costs (thereby ensuring that borrowers possess the necessary cash to close and protect FHA from inflated appraisals).

If confirmed, I would continue to be vigilant in protecting the Fund, while ensuring access to credit for borrowers who can responsibly sustain homeownership.

**Q.3.-a.** According to HUD, the mission of FHA is to administer active mortgage insurance programs that are “designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing.”

During your hearing you stated that you would supply the Committee with an answer to the following question: How much household income does a borrower typically need to qualify for a \$725,000 loan from FHA?

**A.3.-a.** In practice, the answer to this question is that there are a range of borrower incomes required to qualify for a \$725,000 loan from FHA, depending on both the cash available for down payment as well as other borrower debts and expenses. The required household income if the borrower paid 31 percent of their income toward their monthly housing expense, contributed the minimum down payment (and had a good credit score) and had no other significant debt or expenses would be an estimated \$205,774.<sup>1</sup>

**Q.3.-b.** Do you believe this is an appropriate income level to be served by FHA?

**A.3.-b.** The Administration believes that it is appropriate for the loan levels insured by FHA to return to their lower levels. We do understand that in this period of recovery it is difficult to ensure that private capital will return as hoped, and we will of course implement Congress’ determination to maintain Government support for lending at the higher level for some additional period of time.

**Q.4.** In FHA’s annual report to Congress on the Mutual Mortgage Insurance Fund, it was projected that the capital reserve ratio, which FHA has a statutory obligation to maintain at a minimum of 2 percent, has fallen to less than one quarter of 1 percent. Furthermore, it revealed that there is nearly a 50 percent chance that the Fund will require a taxpayer bailout.

<sup>1</sup> Assuming a purchase price of \$751,295, loan amount of \$725,000, 3.5 percent down payment of \$26,295, interest rate of 4.25 percent and taxes and insurance of \$1,565.

If faced with the prospect of obtaining money from the U.S. Treasury or increasing premiums and other risk mitigation actions, what will be your course of action?

**A.4.** If confirmed, focusing on this critical issue will be among my highest priorities. The first place where additional support would come from is the net receipts on new endorsements. Under the base-case scenario utilized in the independent actuarial review, the FY 2012 book will add an additional \$9 billion in economic value to the Fund. The second source of revenue I would consider is increasing the premiums going forward. There are a variety of specific premium options to be considered, including determinations as to whether up-front premium increases versus annual premium increases are most appropriate (or some combination), as well as whether premium increases would be done across the board or on specific types of business. These alternatives are currently being evaluated both for their revenue generation capability as well as their impact on both loan volumes and particular types of FHA borrowers. Other avenues are also being evaluated, including lender enforcement activities and policies to enhance REO or pre-REO recovery rates.

To be clear, the independent actuary does not indicate that there is “nearly a 50 percent chance that the Fund will require a taxpayer bailout”. Rather, the report states that there is a close to 50 percent chance that should market conditions worsen further than anticipated in the base-case economic scenario envisioned by Moody’s Analytics, net losses on the *current* outstanding portfolio could exceed *current* capital resources. As new books of business are expected to be highly profitable, these profits can be used to offset losses on earlier books, reducing the potential need for additional support for the MMI Fund. In any case, we are actively considering alternative courses of action to maintain FHA’s ability to be self-sufficient and to rebuild its required reserves.

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**RESPONSE TO WRITTEN QUESTIONS OF SENATOR TOOMEY  
FROM CAROL J. GALANTE**

**Q.1.** If FHA is permitted to insure loans up to \$729,000, what are steps that FHA can take to improve its financial condition and scale back its market share to reduce its risk?

**A.1.** FHA has a number of tools available to both improve its financial condition and scale back its market share. FHA is currently reviewing a number of alternative options including increasing its premiums (the upfront premium, the annual premium, or some combination). It is also possible to increase premiums for specific types of loans or for borrowers with certain characteristics. These actions could begin to “price” FHA out of the market for some borrowers, however, so FHA must be conscientious of its mission as it explores available alternatives.

**Q.2.** Isn’t FHA’s central mission undermined by expansion into more high-cost areas? Shouldn’t FHA begin to refocus its efforts on only insuring loans for borrowers who are unable to access the conventional loan market?



**A.2.** As stated previously, I do believe that it would be appropriate for FHA to step back and encourage private capital to serve borrowers above \$625,500. FHA's core mission is two-fold: 1) to ensure access to mortgage credit for low- to moderate-income, first-time and minority borrowers, and 2) to play a countercyclical role in the Nation's mortgage markets by facilitating liquidity during periods of market constriction. In times of economic stress, as we are seeing today, FHA is being called upon to act with respect to both aspects of its mission. We continue to provide access to homeownership for responsible low- to moderate-income, minority, and first-time homebuyers while also ensuring the flow of capital throughout the various price points of the market. FHA has taken steps over the past year to begin stepping back and encouraging private capital to return to the market. This can be seen in the fact that FHA premiums have been raised three times in the past several years and are at their historic highs. FHA volume has begun to drop from its peak in 2009 as a result of stepping in to keep mortgage capital flowing. In 2011, FHA volume was down over 30 percent. We are hopeful that these trends will continue as the market recovers, and that in the near future FHA's countercyclical role will no longer be necessary and FHA support can once again largely be focused on the underserved borrowers FHA has consistently served.

**Q.3.** Doesn't raising FHA's loan limit to \$729,000 while maintaining Fannie's and Freddie's at \$625,000 provide FHA with access to parts of the market that are closed to Fannie and Freddie, thereby expanding FHA's market share and exposing taxpayers to the very real possibility of another expensive bailout?

**A.3.** Raising FHA limits and not Fannie's and Freddie's does enable FHA to reach certain borrowers that the GSEs cannot. However, higher loan limits alone do not expose taxpayers to more risk. As mentioned in an earlier response to a question, FHA does not believe these higher loan borrowers pose additional risk to FHA. In fact, based on limited historical information, it appears these borrowers have a lower default/claim risk.

Notwithstanding that these borrowers do not appear to increase FHA risks, the Administration still believes that it would be appropriate for FHA to begin to step back and encourage private capital to serve these borrowers.

# ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

November 16, 2011

The Honorable Tim Johnson	The Honorable Richard Shelby
Chairman	Ranking Member
Committee on Banking, Housing & Urban Affairs	Committee on Banking, Housing & Urban Affairs
U.S. Senate	U.S. Senate
534 Dirksen Building	534 Dirksen Building
Washington, DC 20510	Washington, DC 20510

Dear Chairman Johnson and Ranking Member Shelby:

The undersigned organizations strongly endorse the nomination of Carol J. Galante as Assistant Secretary for Housing/Federal Housing Commissioner. We believe her tenure as Acting Commissioner, Deputy Assistant Secretary for Multifamily Housing and her 31-year long private sector real estate experience has prepared her well to be the Assistant Secretary. We urge you to approve her nomination.

As Acting Commissioner, Ms. Galante already has had several impressive achievements. She spearheaded a major overhaul of the HUD Housing Counseling Program, including establishing the new Office of Housing Counseling. The changes to HUD's Housing Counseling Program will improve effectiveness, better target resources to maximize efficiency and ensure that HUD grant funds achieve maximum impact in the communities where they are invested.

She also prioritized a global review of the Home Equity Conversion Mortgage (HECM or reverse mortgage) program, including issuing guidance to the industry on the use of borrower financial assessments and analysis of other potential changes to ensure the long-term stability of this important program.

As the nation contends with the foreclosure crisis, Ms. Galante has ensured that taxpayers are protected from waste, fraud and abuse by holding lenders accountable for non-compliance with the Federal Housing Administration's (FHA) requirements. This included the November 1, 2011 suspension of Allied Home Mortgage Corporation and its President; the withdrawal of 11 lenders from FHA's program and the imposition of more than \$1.5 million in civil money penalties on non-compliant lenders.

Lastly, she oversaw the publication of two significant Mortgagee Letters that outline changes to FHA's requirements for lenders, making FHA programs work more effectively for FHA's lender partners.

Prior to becoming Acting Commissioner, she led the Multifamily Housing Division of FHA, with 1600 employees and 53 field offices. Ms. Galante was responsible for a \$50 billion portfolio of affordable and market rate multifamily properties through the FHA Multifamily Insurance Program, as well as the administration of the \$9 billion Project Based Rental Assistance Program and the 202/811 grant programs for elderly and disabled housing.

And before she began her federal service, she was President and Chief Executive of BRIDGE Housing, California's largest non-profit housing development corporation, and its affiliate companies. This included overseeing a Property Management company, an economic development corporation, senior

services and land development. BRIDGE is widely known as a leading practitioner using the best private sector business practices and entrepreneurial ideas to build affordable homes and apartments in a wide variety of communities.

As the nation's housing market remains fragile, we need Ms. Galante's demonstrated experience at FHA to provide leadership on and practical solutions to America's housing challenges. We urge you to approve Ms. Galante to take on this challenge.

Sincerely,

Affordable Housing Tax Credit Coalition  
 Center for American Progress Action Fund  
 Center for Responsible Lending  
 Consortium for Citizens With Disabilities Housing Task Force  
 Corporation for Enterprise Development  
 Corporation for Supportive Housing  
 Council of Large Public Housing Authorities  
 Council of State Community Development Agencies  
 Enterprise Community Partners, Inc.  
 Habitat for Humanity  
 Housing Assistance Council  
 Housing Partnership Network  
 LeadingAge  
 Local Initiatives Support Corporation  
 Low Income Investment Fund  
 McCormack Baron Salazar  
 Mortgage Bankers Association  
 National Affordable Housing Management Association  
 National Alliance on Mental Illness  
 National Alliance to End Homelessness  
 National Association of Affordable Housing Lenders  
 National Association of Housing & Redevelopment Officials  
 National Association of Local Housing Finance Agencies  
 National Community Reinvestment Coalition  
 National Community Stabilization Trust  
 National Housing & Rehabilitation Association  
 National Housing Conference  
 National Housing Trust  
 National Leased Housing Association  
 National Low Income Housing Coalition  
 Self-Help  
 Stewards of Affordable Housing for the Future  
 The Community Builders  
 Volunteers of America



November 15, 2011

<p>The Honorable Tim Johnson Chairman Committee on Banking, Housing &amp; Urban Affairs U.S. Senate 534 Dirksen Building Washington, DC 20510</p>	<p>The Honorable Richard Shelby Ranking Member Committee on Banking, Housing &amp; Urban Affairs U.S. Senate 534 Dirksen Building Washington, DC 20510</p>
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Dear Chairman Johnson and Senator Shelby:

Stewards of Affordable Housing for the Future (SAHF) represents 11 sophisticated not-for-profit members who acquire, preserve and are committed to long-term, sustainable ownership and continued affordability of multifamily rental properties for low-income families, seniors, and disabled individuals. Since 2003 SAHF has promoted its members' shared ownership objective, which embraces the notion that stable, affordable rental homes are critically important in people's lives. Together SAHF members provide homes to over 93,000 low-income households across the country.

SAHF strongly endorses the nomination of Carol J. Galante as Federal Housing Commissioner and Assistant Secretary for Housing. Her experience as Acting Commissioner, and previously as the Deputy Assistant Secretary for Multifamily Housing, proved her ability to implement practical improvements and improve the efficiency and effectiveness of HUD's efforts to serve seniors, the disabled, and low-income households. Her previous experience as President of BRIDGE Housing gave her a practical understanding of both single family and multifamily housing finance and the critical partnership between the federal government and the private sector in providing housing to some of our most vulnerable households.

Addressing America's housing needs has never been more difficult or important, both in meeting America's diverse housing needs and for its implications for the national economy. Carol Galante brings practical experience and dedication that would be a great asset for moving our housing efforts forward. We urge you to approve the nomination of Ms. Galante as Federal Housing Commissioner and Assistant Secretary for Housing.

Sincerely,

Bill Kelly  
President

Stewards of Affordable Housing for the Future (SAHF) • The Evangelical Lutheran Good Samaritan Society  
Homes for America • Mercy Housing • National Affordable Housing Trust • National Church Residences  
The NHP Foundation • NHT/Enterprise Preservation Corp. • Preservation of Affordable Housing  
Retirement Housing Foundation • The Community Builders • Volunteers of America • [www.sahfnet.org](http://www.sahfnet.org)



October 24, 2011

The Honorable Tim Johnson  
Chairman  
Senate Banking Committee  
534 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Richard Shelby  
Ranking Member  
Senate Banking Committee  
534 Dirksen Senate Office Building  
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Shelby:

On behalf of the Mortgage Bankers Association (MBA), I am writing you in support of the nomination of Carol Galante to be Assistant Secretary for Housing and Federal Housing Administration (FHA) Commissioner. I would respectfully urge you to consider her nomination as expeditiously as possible.

FHA continues to play a critical role in the realm of housing finance, particularly as the overall housing market struggles toward recovery. FHA is especially vital to homebuyers who may need a little "extra help" securing safe, decent, and affordable housing, focusing more on the needs of first-time, minority, and low- and moderate-income borrowers than any other national program. At present, approximately 77 percent of FHA-insured home purchase loans are made to first-time homebuyers, and 31 percent of these first-time homebuyers are minorities.

The broader, ongoing debate on the future of housing finance in the United States has highlighted the fundamental role of rental housing. The number of renter households is expected to continue to increase substantially over the next decade. In addition, FHA has seen a significant increase in the market share of both single-family and multifamily programs since 2008. Because of its essential role in the current housing marketplace, FHA must have a seasoned leader to direct its mission at this crucial time.

Carol Galante will bring tremendous expertise and a deep commitment to strengthening FHA's program areas to the post of Commissioner. Her decades of work in affordable housing development and more recently, managing FHA's multifamily programs, give her a unique perspective on the issues facing our nation's housing and mortgage markets. This experience and practical understanding will serve her well in this new position.

The MBA is eager to continue working with Ms. Galante in this new capacity when confirmed, and we hope that the Banking Committee and, in turn, the full Senate, will move quickly to approve her nomination. Thank you in advance for your consideration of these views.

Sincerely,

David H. Stevens

David H. Stevens, President and CEO | [dstevens@mortgagebankers.org](mailto:dstevens@mortgagebankers.org)

1717 Rhode Island Avenue, NW | Washington, DC 20036 | [www.mortgagebankers.org](http://www.mortgagebankers.org) | (202) 557-2701



**National Association of Home Builders**

1201 15th Street NW  
Washington, DC 20005  
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F 202 266 8400  
[www.nahb.org](http://www.nahb.org)

November 16, 2011

The Honorable Tim Johnson, Chairman  
The Honorable Richard Shelby, Ranking Member  
Committee on Banking, Housing and Urban Affairs  
534 Dirksen Building  
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Shelby:

On behalf of the 160,000 members of the National Association of Home Builders (NAHB), I would like to express our support for the nomination of Carol Galante as Assistant Secretary for Housing/FHA Commissioner at the U.S. Department of Housing and Urban Development (HUD). Ms. Galante, currently Acting FHA Commissioner, previously served as Deputy Assistant Secretary for Multifamily Housing. Ms. Galante has had a long and distinguished career in the private sector, notably as President and Chief Executive of BRIDGE Housing Corporation, the largest non-profit developer of affordable, mixed-income and mixed-use developments in California. In addition to her work in real estate development, ownership and management, Ms. Galante has also worked for the cities of Santa Barbara, Philadelphia and Richmond, CA, where she worked in city planning and community economic development.

As FHA Commissioner, Ms. Galante will have direct responsibility for oversight and administration of the FHA insurance portfolio, which includes multifamily housing, insured health care facilities and well over 20 percent of mortgages in the domestic single-family market. She will be responsible for several of HUD's rental assistance programs, including 1.2 million units of Project Based Rental Assistance, and over 424,000 apartments for elderly and the disabled under the Section 202 and 811 programs.

NAHB members have worked closely with Ms. Galante over the past two years on multifamily issues. Ms. Galante demonstrated her leadership skills as she sought improvements in the FHA multifamily mortgage insurance programs that were designed to improve the quality of the portfolio and reduce risk to taxpayers. This has not been an easy task, given the difficult economic environment and the heavy responsibility of FHA to ensure that credit remains available to builders and developers during economic slumps.

Ms. Galante has been very open to engaging in a dialogue with industry stakeholders on a variety of issues. She has led stakeholder meetings on initiatives related to the rental assistance transformation initiative that will align regulatory requirements across federal housing programs and has been active in promoting Choice Neighborhoods. We believe that a critically important job of the FHA Commissioner is to engage stakeholders, and we believe that Ms. Galante has shown a commitment to do so.

Chairman Tim Johnson and Ranking Member Richard Shelby  
November 16, 2011  
Page 2

We therefore urge the members of the Committee to approve the nomination of Carol Galante for Assistant Secretary of Housing/FHA Commissioner. We hope that NAHB will have the opportunity to continue working with Ms. Galante in this capacity.

Thank you for the opportunity to express our support.

Best regards,

A handwritten signature in black ink, appearing to read 'R. Nielsen', with a long horizontal flourish extending to the right.

Robert F. Nielsen  
2011 NAHB Chairman

KANSAS CITY SOUTHERN

MAILING ADDRESS: P O BOX 219335 • KANSAS CITY MO 64121-9335

MICHAEL R. HAVERTY  
EXECUTIVE CHAIRMAN



November 14, 2011

The Honorable Jerry Moran  
United States Senate  
354 Russell Senate Office Building  
Washington, DC 20510

Dear Senator Moran:

Please accept this as my strong endorsement of Thomas M. Hoenig, former president of the Federal Reserve Bank of Kansas City, to be vice chairman of the Federal Deposit Insurance Corporation (FDIC).

I have known Tom for about sixteen years. He and I first became acquainted when I moved from the Chicago area to the Kansas City area in 1995.

Tom served as chairman of the board of directors at Benedictine College in Atchison, Kansas where he received his undergraduate degree in the 1960s. My home town is Atchison, and I started college at Benedictine which at the time was known as St. Benedict's College. Because Atchison is my hometown, my wife, Marlys, and I decided to help support the school. That is when Tom and I got to know each other very well and a casual relationship developed into a strong friendship with Tom and his wife, Cynthia. Over the years we have done many things socially with the Hoenigs and consider them two of our best friends in the Kansas City area.

Tom is originally from Fort Madison, Iowa. He is has earned a reputation for being honest, open and dedicated to doing the right thing even when it is difficult. He has been involved in many community activities including serving until recently on the board of directors of Union Station Kansas City of which I am the chairman.

Based on my relationship with Tom I believe he is an outstanding banker who always does what he thinks is right for our country. He is highly respected in our community and is one of the founders of the Kansas City Economic Club. He is very knowledgeable about the important role that community banking plays in job creation.

I am pleased to enthusiastically recommend Tom Hoenig for appointment as Vice Chairman of the Federal Deposit Insurance Corporation. Please feel free to contact me if I can be of further assistance.

Sincerely,

  
Michael R. Haverty

MRH/lfr

CATHEDRAL SQUARE

427 WEST 12TH STREET

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